



CAPITAL FACILITIES RESERVE FUNDS

INFRASTRUCTURE AND GENERAL GOVERNMENT APPROPRIATIONS SUBCOMMITTEE
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ISSUE BRIEF

SUMMARY

The Division of Facilities, Construction, and Management (DFCM) oversees two reserve funds for capital facilities that allow the Division to reallocate state funds from projects that come in under budget to projects that go over budget. The Contingency Reserve Fund currently has a balance of \$7.15 million which increases proportionally as the State adds construction projects. The Project Reserve Fund has a current balance of \$6 million. The Analyst recommends that the Legislature keep the Contingency and Project Reserve funds and at the current levels.

BACKGROUND

Utah Code 63A-5-209 gives the director of the Division of Facilities, Construction and Management (DFCM) oversight of two reserve funds for capital facilities projects – the Contingency Reserve Fund and the Project Reserve Fund. The Legislature created these funds to allow savings on capital facility projects to offset unexpected costs (beyond the budgeted amount) on other projects.

The Contingency Reserve Fund receives 4.5% to 6.5% of the budgeted amount of all new construction projects and 6% to 9.5% of the budgeted amount for remodeling projects. Expenditures out of the Fund cover contingencies above and beyond the amounts budgeted for planning, engineering, architectural, site, and construction. These funds cover the cost of change orders and other unforeseen, but necessary costs budgeted for a capital facility project.

The Project Reserve Fund accumulates funds from bid savings (when the actual construction bid is less than the amount budgeted for construction) and the amount of budget left over after completion of a project. The director may use these funds only if an awarded construction contract exceeds the amount budgeted for construction. Each year the Legislature reviews the use of these funds and may reappropriate excess amounts to other priorities.

DISCUSSION AND ANALYSIS

Contingency Reserve Fund

Contingency Reserve Fund Historical Balance					
	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Beginning Balance	\$ 6,649,600	\$ 7,524,000	\$ 3,350,300	\$ 7,079,500	\$ 8,611,900
Increases	10,014,500	14,291,300	12,556,800	9,668,800	5,403,400
Decreases	(9,140,100)	(18,465,000)	(8,827,600)	(8,136,400)	(6,958,800)
New Construction Costs	(4,775,100)	(13,498,600)	(7,127,600)	(6,759,400)	(4,875,800)
Remodeling Costs	(2,282,700)	(1,884,100)	(1,617,700)	(1,377,000)	(1,853,400)
Legislative Reappropriation	(2,082,300)	(3,082,300)	(82,300)		(229,600)
Ending Balance	\$ 7,524,000	\$ 3,350,300	\$ 7,079,500	\$ 8,611,900	\$ 7,056,500

Table 1

Increases to the Contingency Reserve Fund consist primarily of the percentage of construction budgeted for contingencies (between 4.5% and 9.5% of the cost of the project). Decreases to the Fund balance include change orders for new construction, change orders for remodeling costs, and Legislative appropriations for other uses (which include the DFCM administrative budget, new capital projects, and transfers to the General Fund).

The Legislature made the following reductions to the Contingency Reserve Fund:

- FY 2006 - \$694,000 to construct the DNR Fire Management Service Facility
- FY 2006 - \$225,000 to purchase land for a courthouse in Provo
- FY 2006 - \$1,500,000 transfer to the Project Reserve Fund
- FY 2008 - \$2,000,000 to purchase land for the Southwest Applied Technology Collage
- FY 2009 - \$1,000,000 to purchase land for Utah Valley University
- FY 2009 - \$2,000,000 transfer to the General Fund

Over the last several years the average balance in the Contingency Reserve Fund was around \$6.7 million, but the monthly balance changes dramatically due to project additions and large contingent payments.

DFCM actively manages hundreds of projects from multi-million dollar construction to small capital improvements. Each project usually requires some expenditure for unforeseen contingencies. One large project can consume a substantial portion of the balance like the University of Utah Marriott Library project, which required \$2.3 million in FY 2008. Likewise, multiple small projects add up over time and slowly reduce the balance. The Analyst recommends caution in making significant decreases to the Contingency Reserve Fund.

Project Reserve Fund

Table 2 below shows the historical balance in the Project Reserve Fund including increases and decreases to the Fund. Increases to the Fund consist of savings from bids coming in under budget and the residual amounts left over after completion of a project. Decreases to the Fund balance include costs of bids coming in over the budgeted amount and Legislative appropriations for other uses (typically to DFCM for project administration). In FY 2006 contract costs exceeded contract savings by \$5.6 million and necessitated a transfer of \$1.5 million from the Contingency Reserve Fund by the Legislature. Economic conditions in FY 2008 and thereafter reversed the trend such that bid savings exceeded contract costs by over \$15.7 million in FY 2011. Specific projects contributing to the bid savings were:

1. Utah Valley University science building project - \$7.4 million
2. Southern Utah University science building project - \$2.3 million
3. Corrections security project - \$1.2 million

The State Building Board will reallocate some funds in the Project Reserve Fund for new capital improvements. During the 2010 General Session, the Legislature approved a change in statute (S.B. 189 *Capital Facilities Amendments*) that allows the Building Board to reallocate funds in the Project Reserve Fund that come from capital improvement projects. This policy now allows the state to spend all of the appropriations to capital improvements rather than having a portion reside in the reserve fund.

Project Reserve Fund Historical Balance					
	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>FY 2011</u>	<u>FY 2012</u>
Beginning Balance	\$ 2,907,000	\$ 5,613,800	\$ 9,111,800	\$ 6,172,500	\$ 4,893,000
Increases	3,854,300	4,754,500	4,464,600	18,900,500	2,921,800
Bid Savings	1,877,400	-	2,468,800	17,853,300	1,500,500
Project Close-out	1,976,900	4,754,500	1,995,800	1,047,200	1,421,300
Decreases	(1,147,500)	(1,256,500)	(7,403,900)	(20,180,000)	(1,828,300)
Contract Costs	(947,500)	(1,056,500)	(2,203,900)	(1,539,700)	(1,428,300)
Legislative Reappropriation	(200,000)	(200,000)	(5,200,000)	(18,640,300)	(400,000)
Ending Balance	\$ 5,613,800	\$ 9,111,800	\$ 6,172,500	\$ 4,893,000	\$ 5,986,500

Table 2

During the 2010 and 2011 General Sessions the Legislature reduced the project reserve fund by \$5 million and \$12 million, respectively, and appropriated those funds to the capital improvement line item. The FY 2013 beginning balance in the Project Reserve Fund was \$5,986,500.

Figure 2

RECOMMENDATIONS

The Analyst recommends the Legislature consider keeping the Contingency Reserve Fund and the Project Reserve Fund at the current levels. The Analyst recommends caution in reducing the funds due to the many large construction projects outstanding that could have large contingent expenses.